



Sunrise Community Banks

St. Anthony Park Bank

Franklin Bank

University Bank

April 1, 2004

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20051
Re: Docket No. R-1181

RE: **Proposed** Revisions to the Community Reinvestment Act Regulations

Dear Board of Governors:

We are writing to support the federal bank regulatory agencies' (Agencies) proposal to enlarge the number of **banks and savings** associations that will be examined under the small institution Community Reinvestment Act (CRA) examination. The Agencies propose to **increase** the asset threshold from \$250 million to \$500 **million** and to eliminate any consideration of whether the small institution is owned by a holding company. This proposal will help to more appropriately implement the Community Reinvestment Act and should reduce regulatory **burden** on small institutions newly eligible for **the** large institution **CRA** examination.

When the CRA regulations were rewritten in 1995, the **banking** industry recommended that community banks of at least \$500 million be eligible **for** less burdensome small institution examination. Although this asset threshold was not placed in the revised CRA regulations, the new regulations helped impose the Act's requirements: it **had** the **examiners** looking at loans of small **institutions** to assess whether the bank was helping meet the credit needs of the bank's entire community. It created a simple, understandable **assessment** test of the bank's record of providing credit in its **community**: considering the bank's loan-to-deposit ratio; the percentage of loans in its assessment area; lending to borrowers of different income levels **and** businesses of different sizes; the geographic distribution of loans; and response to written complaints about lending, if warranted.

Since then, the regulatory burden on small banks has continually increased, **Our** banks now have **new** reporting requirements under HMDA, the **USA** Patriot Act and the privacy provisions of the Gramm-Leach-Bliley Act. During **this** same time period, however, the nature of community banks **has** remained the same. **If** our subsidiary banks are required to comply with the requirements of the large institution CRA examination based on the size of the holding company or based on bank assets of just **\$250** million, the monetary costs **and** burden will significantly **out way any** perceived regulatory improvements. Converting to a large institution examination will

require, **among** other **things**, significant staff time for training on software **and** implementing appropriate tracking for loans **that** might have CRA value. This effort **will take away** money **and** personnel from our **institutions'** ability to continue meeting the credit needs of our community. **Our** banks' focus **is** lending and the small institution CRA examination appropriately assesses us on **lending**.

A community bank is typically non-complex, taking in deposits **and** making loans. Business activities are focused on geographic areas where the **bank** is **known** in its community. The **small** institution examination accurately captures the information necessary for examiners to assess whether a community bank is helping to meet the credit needs of its community **and** nothing more is required to satisfy the **Act**.

Raising the asset threshold to \$500 million **and eliminating** the holding **company** limitation makes sense, as it would better align the distribution of assets between small and large banks. It would **retain** the percentage of industry **assets** subject to the large retail institution test. With all of the financial institution mergers, **there has** been a drastic decline **in** the number of banks. In **revising** the CRA regulation, the Agencies are **just** trying to preserve the status quo of the regulation. Raising the limit will not diminish **any** institution's obligation to meet the credit needs **of** their communities. Instead, these changes **will** begin to help address the regulatory burden associated with evaluating institutions under CRA.

In conclusion, we **strongly support** increasing **the** asset-size of banks eligible for the small bank streamlined CRA examination process. We see it **as** an important step in revising and improving the **CRA** regulations **and** in reducing regulatory burden. We also support the elimination of the separate holding company qualification, since **it** places small community banks that are part of a larger holding company at a disadvantage to their peers. **We** don't **want** our community banks to **drown in** regulatory red **tape**.

Sincerely,



Rachael M. Petersen
Vice President
Franklin Bancorp, Inc.